

UPPER CUMBERLAND DEVELOPMENT DISTRICT
Cookeville, Tennessee

AUDIT REPORT

June 30, 2010

Upper Cumberland Development District
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Section of Upper Cumberland Development District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

FINANCIAL HIGHLIGHTS

Government-Wide

- The District's assets exceed its liabilities by \$1,963,468 (net assets) at year-end June 30, 2010. This compares to the previous year when assets exceeded liabilities by \$1,814,503.
- Net assets consist of the following:
 - 1) Fixed assets, net of accumulated depreciation, increased \$20,184.
 - 2) Unreserved fund balance increased by \$148,928.
 - 3) Net assets unrestricted increased by \$148,962.
- The District's governmental-wide statements reported total ending net assets of \$1,963,468 for the year ended June 30, 2010. This compares to the prior year balance of \$1,814,503 an increase of \$148,965.

OVERVIEW OF FINANCIAL STATEMENTS

Managements Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include: government wide financial statements; fund financial statements; and notes to the financial statements. The District also includes in this report additional information to supplement the financial statements.

Government-wide Financial Statements

The District's annual report includes two government-wide financial statements. These statements both provide long-term and short-term information about the District's status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in modified accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide financial statements is the Statement of Net Assets. This is the District-wide statement of position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to

other non-financial factors in addition to the financial information provided in this report.

The second government-wide financial statement is the Statement of Activities, which reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when the cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by the District's local governments and grantors.

Both government-wide financial statements are designed to distinguish between governmental activities supported mostly by grants and assessments and business-type activities. However, all of the District's activities fall within governmental activities category.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's funds rather than the District as a whole. The District uses governmental funds.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of the short-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to assist in understanding the differences between these two perspectives.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. They provide explanation of the financial statements and provide more detailed data.

Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements.

Financial Analysis of the District as a Whole

The District implemented the new financial reporting model used in this report beginning with the fiscal year ended June 30, 2004. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole.

The District's net assets increased \$148,962 during the fiscal year from a beginning balance of \$1,814,503 to \$1,963,468 at fiscal year end.

Since the Upper Cumberland Development District continues to derive the vast majority of its funding from the State and Federal governments, and those funds appear to be stable at the present time, the overall financial outlook of the District can be characterized as "good." Despite that fact, UCDD continues to seek and implement cost control measures as funding from those sources does not always increase on an annual basis in keeping up with the rate of inflation (i.e., labor, employee benefit, and other operating costs).

Financial Analysis of the Agency's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of expendable resources focus. This information is useful in assessing resources available at year-end in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$1,963,468.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets net of accumulated depreciation amounted to \$88,282. Depreciation in the current period was \$20,184.

Economic Factors and Next Year's Budget

While the Upper Cumberland Development District is a governmental entity, it is not a unit of local government (i.e., city, county, etc.). Therefore, economic factors do not have the same direct impact upon UCDD's budgets and operations as they have on governmental bodies. UCDD does not have taxing power, nor does it levy fees or set rates, such as for utilities, which generate income in response to changing economic conditions. UCDD contracts primarily with the State of Tennessee and to a lesser degree the Federal government, to administer certain programs on their behalf. To the extent that economic factors affect the State and Federal governments UCDD's contacts may be positively or negatively impacted.

Disruptions in the region's manufacturing sector have contributed to a slowdown in economic activity in the region during the past year. Two major closures have resulted in the loss of over 1,800 jobs in White and Warren Counties. Unemployment rates have risen to levels higher than the state and national rates. Other sectors have been increasing in employment, but these have not been fast enough to compensate for manufacturing losses. As a result, growth in retail activity and sales tax collections has weakened regionally. Certain areas of the region remain strong but overall growth in retail has fallen below statewide levels. Local leaders are aggressively pursuing new employment opportunities but fierce competition for new jobs means that major new projects are likely to be slow to develop.

On a more positive note, bank deposit data show growth rates exceeding state and national levels and the latest data from the Bureau of Economic Analysis show per capita personal income levels growing at a rate relatively faster than state and national rates. These income data are from 2003 and it remains to be seen what effect the aforementioned factors will have on later income trends.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like additional information, contact the District's Executive Director at 1225 South Willow Avenue, Cookeville, TN 38506.

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Upper Cumberland Development District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Upper Cumberland Development District, as of and for the year ended June 30, 2010, which collectively comprise the Development District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Upper Cumberland Development District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Upper Cumberland Development District, as of June 30, 2009, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2011, on our consideration of the Upper Cumberland Development District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA, CFP, PFS
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Cumberland Development District's basic financial statements. The introductory section and accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Upper Cumberland Development District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Craine, Thompson + Jones P. C.

Morristown, Tennessee
January 15, 2011

Upper Cumberland Development District
Statement of Net Assets
 June 30, 2010

	Governmental Activities	Total Primary Government	Component Unit
Assets			
Cash	\$ 345,070	\$ 345,070	\$ 691,661
Accounts receivable	265,529	265,529	-
Grants receivable	1,998,571	1,998,571	-
Current portion of notes receivable	-	-	664,409
Allowance for loan loss	-	-	(42,074)
Equipment, net	88,282	88,282	601,613
Other assets	-	-	7,140,209
Total assets	\$ 2,697,452	\$ 2,697,452	\$ 9,055,818
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 460,191	\$ 460,191	\$ 29,480
Accrued expenditures	94,843	94,843	5,486
Unearned grantor revenue	178,950	178,950	-
Current portion of notes payable	-	-	137,222
Long-term portion of notes payable	-	-	1,918,499
Total liabilities	\$ 733,984	\$ 733,984	\$ 2,090,687
Net Assets:			
Invested in fixed assets	\$ 88,282	\$ 88,282	\$ -
Unrestricted	1,875,186	1,875,186	442,875
Temporarily restricted	-	-	3,844,056
Permanently restricted	-	-	2,678,200
Total net assets	\$ 1,963,468	\$ 1,963,468	\$ 6,965,131

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Statement of Activities
 For the Year Ended June 30, 2010

	<u>Expenses</u>	<u>User Charges</u>	<u>Operating Grants</u>	<u>Net(expense) Revenue and Changes in Net Assets</u>
Governmental activities	\$ 7,312,352	\$ 53,951	\$ 5,085,757	\$ (2,172,644)
General revenue:				457,530
Project revenue				1,827,899
Program income				27,874
Donations				8,303
Interest earned				
Total general revenue				2,321,606
Increase in net assets				148,962
Net assets, beginning				1,814,506
Net assets, ending				\$ 1,963,468

The accompanying notes are integral part of these financial statements.

Upper Cumberland Development District
Combining Balance Sheet
 June 30, 2010

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	General Fund	Special Revenue Fund	Total
Assets			
Cash	\$ 166,120	\$ 178,950	\$ 345,070
Accounts receivable	265,529	-	265,529
Grants receivable	-	1,998,571	1,998,571
Due from other funds	1,998,571	-	1,998,571
Total assets	<u>\$ 2,430,220</u>	<u>\$ 2,177,521</u>	<u>\$ 4,607,741</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 460,191	\$ -	\$ 460,191
Accrued expenditures	94,843	-	95,203
Unearned grantor revenue	-	178,950	291,439
Due to other funds	-	1,998,571	1,998,571
Total liabilities	<u>555,034</u>	<u>2,177,521</u>	<u>1,842,050</u>
Fund balance	<u>1,875,186</u>	<u>-</u>	<u>1,875,186</u>
Total liabilities and fund balance	<u>\$ 2,430,220</u>	<u>\$ -</u>	
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			<u>88,282</u>
Net assets of governmental activities			<u>\$ 1,963,468</u>

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Statement of Revenue, Expenditures, and
Changes in Fund Balance
 FYE 6/30/10

	General Fund	Grants Funds	Totals
Revenue:			
Grantor contributions	\$ 180,000.00	\$ 4,905,757	\$ 5,085,757
Revenue from projects	457,530		457,530
Revenue from dues	53,951		53,951
Program income	1,309,317	518,582	1,827,899
Donations and fundraisers	27,874		27,874
Interest earned	8,303		8,303
	<u>2,036,975</u>	<u>5,424,339</u>	<u>7,461,314</u>
Total Revenues			
Expenditures:			
Salaries	551,715	1,230,321	1,745,222
Fringe benefits	132,206	304,965	427,492
Supplies	19,047	59,077	90,503
Communication	36,325	67,409	91,204
Professional fees		14,312	8,962
Occupancy	43,835	74,147	126,647
Travel	123,554	176,345	287,633
Contracted services	73,797	370,623	398,726
Financial aid	256	87,668	86,992
Administrative cost	258,742	571,657	830,399
Payments to subcontractors		2,668,808	2,218,871
Fund raising	30,875		27,451
Equipment and vehicles	16,347	14,246	38,586
Other expense	376,456	9,653	38,443
	<u>1,663,155</u>	<u>5,649,231</u>	<u>7,312,386</u>
Total expenditures			
Excess of revenue over(under) expenditures	373,820	(224,892)	148,928
Other sources(uses) of funds:			
Operating transfer	(224,892)	224,892	
	148,928	-	148,928
Excess of revenue over expenditures and other uses			
	<u>1,726,258</u>	<u>-</u>	<u>1,726,258</u>
Fund balance, beginning			
Fund balance, ending	<u>\$ 1,875,186</u>	<u>\$ -</u>	<u>\$ 1,875,186</u>

The accompanying notes are integral part of these financial statements.

Upper Cumberland Development District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
 For the Year Ended June 30, 2010

Amounts reported for governmental activities in the statement
 of activities (page 8) are different because:

Net change in fund balance - total governmental funds (page 10)

\$ 148,928

Governmental funds report capital outlays as expenditures. However, in
 the statement of activities the cost of those assets is allocated over
 their estimated useful lives and reported as depreciation expense. This
 is the amount by which depreciation exceeded capital outlays in the
 current period.

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Change in net assets of governmental activities

\$ 148,962

The accompanying notes are an integral part of these financial statements.

Cumberland Area Investment Corporation
Statement of Activities
 For the Year Ended June 30, 2010

<u>Unrestricted Net Assets</u>	\$ 2,228
Interest-bank accounts	49,146
Other income	
	<u>51,374</u>
Total increase in unrestricted net assets	
Expenses:	68,340
Payroll	21,351
Payroll taxes and fringe benefits	27,696
Depreciation expense	6,554
Supplies	3,259
Communications	5,023
Occupancy	7,657
Travel	33,865
Contractual	1,831
Miscellaneous expense	5,137
Titles and taxes	6,200
Audit	35,397
Bad debt expense	480
Insurance	142
Bank charges	
	<u>222,732</u>
Total expenses	
Increase (decrease) in unrestricted net assets before interest expense	(171,358)
Interest expense	29,412
Net assets released from temporary restriction:	
Satisfaction of usage requirement	<u>161,361</u>
	36,646
Increase in unrestricted net assets	<u>406,229</u>
Unrestricted net assets, July 1	
	<u>\$ 442,875</u>
Unrestricted net assets, June 30	

The accompanying notes are an integral part of these financial statements.

Cumberland Area Investment Corporation
Statement of Activities
 For the Year Ended June 30, 2010

Temporarily Restricted Net Assets

Increases:	\$ 287,707
Interest- loans	
Decreases:	<u>252,114</u>
Release of restriction	
	35,563
Increase in temporarily restricted net assets	<u>3,808,493</u>
Temporarily restricted net assets, July 1	<u>\$ 3,844,056</u>
Temporarily restricted net assets, June 30	

Permanently Restricted Net Assets

Increases:	\$ -
Decreases:	<u>-</u>
Increase in permanently restricted net assets	
Permanently restricted net assets, July 1	<u>2,678,200</u>
Permanently restricted net assets, June 30	<u>\$ 2,678,200</u>

The accompanying notes are an integral part of these financial statements.

Cumberland Area Investment Corporation
Statement of Cash Flows
 For the Year Ended June 30, 2010

Cash flows from operating activities:	\$ 1,687,793
Payments received on notes receivable	2,228
Interest received from banks	49,146
Other Cash received	(221,050)
Operating expenses	(844,000)
New loans	
	<u>674,117</u>
Net cash provided by operating activities	
 Cash flows from financing activities:	(306,567)
Principal payments on loans	(29,529)
Interest paid on loans	
	<u>(336,096)</u>
Net cash provided by financing activities	
	338,021
Net decrease in cash and cash equivalents	
	<u>353,640</u>
Cash and cash equivalents, July	
	<u>\$ 691,661</u>
Cash and cash equivalents, June 30	
 Reconciliation of increase in net assets to net cash provided by operating activities:	\$ 182,761
Increase in net assets	31,858
Depreciation	368,627
Decrease in notes receivable	
	<u>\$ 583,246</u>
Net cash provided by operating activities	

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Public Guardian Fiduciary Fund
Statement of Net Assets
June 30, 2010

Assets:	\$ 518,460
Cash and cash equivalents	220,442
Investments at fair value:	<u>258,525</u>
Investment accounts	
Property	<u>\$ 997,427</u>
Total assets	
Net assets:	<u>\$ 997,427</u>
Held in trust	

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
 Public Guardian Fiduciary Fund
Statement of Changes in Net Assets
 For the Year Ended June 30, 2010

Additions:	\$ 46,709
Contributions	590,826
Retirement benefits	187,183
Dividends & interest	136,067
Transfers	77,953
Other	
	<u>1,038,738</u>
Total additions	
Deductions:	912,527
Client expenses	30,455
Professional and legal	68,243
Conservator fees	1,394
Court fees	153,714
Transfers	256,515
Estates	2,256
Other	
	<u>1,425,104</u>
Total deductions	
	(386,366)
Increase in net assets	
	<u>1,383,793</u>
Net assets, beginning	
	<u>\$ 997,427</u>
Net assets, ending	

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Notes to Financial Statements
 June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Upper Cumberland Development District (District) is a multi-funded quasi-governmental agency created in accordance with Chapter 241 of the Public Acts of 1965, known as the Development District Act. The Upper Cumberland Development District was established in 1969, and serves 14 counties in the Upper Cumberland area. The primary function of the Development District is to assist the local government agencies in economic development, including the areas of housing, assistance to the elderly, and community development planning. These programs are funded for the most part through federal grants, with matching assistance from the local and state levels.

The Governing Board consists of:

- County and City Mayors within the established region served by the agency,
- One State Senator and one State Representative whose districts lie wholly or in part within the established region served by the agency,
- and one additional member from each county of the region, appointed by the County Mayor.

The District has one discreetly-presented component unit, Cumberland Area Investment Corporation.

The Cumberland Area Investment Corporation is a government-funded agency chartered as a Tennessee general corporation pursuant to Section 48-1201 of the Tennessee General Corporation Act. The Cumberland Area Investment Corporation was established in 1982 by Upper Cumberland Development District as a separate entity to accept and administer federal loan programs. Cumberland Area Investment Corporation serves 14 counties in the Upper Cumberland area. The primary function of the Cumberland Area Investment Corporation is to assist residential and commercial development with its chief goal being the economic development of manufacturing and commercial business by providing long-term financing at available market rates from funds provided by government funding and administered by the Cumberland Area Investment Corporation.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* which normally are supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *governmental revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the propriety fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The discretely-presented component unit, Cumberland Area Investment Corporation, maintains its accounts on an *accrual basis*, recognizing revenue as earned and expenses as they are incurred.

The government reports the following governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* accounts for the resources received and expenditures incurred in connection with grants received by the agency.

The *fiduciary fund* accounts for funds managed by the Public Guardian on behalf of clients assigned to the program by the courts.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally, dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue for the agency is shown as contributions from beneficiaries.

Disbursements for the wards, their estates or other third parties representing the wards are shown as distributions to beneficiaries.

Budget Process

The agency does not have an annual appropriated budget. The grant documents, service contracts, and program projections serve as the financial plans for budgetary purposes.

NOTE 2 – OTHER ACCOUNTING MATTERS

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Property and Equipment – Purchases of property and equipment by UCDD with unrestricted funds with a unit cost of \$5,000 or more are capitalized and depreciated by the straight-line method over their estimated useful lives. For Cumberland Area Investment Corporation purchases of property and equipment with unrestricted funds with a unit cost of \$500 or more be capitalized and depreciated by the straight-line method over their estimated useful lives.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The principal bank accounts are in a financial institution that participates in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Other deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the Agency. Category 1 consists of deposits that are insured or collateralized with securities held by the Agency or by its agent in the Agency's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name. Category 3 deposits are uninsured and uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Agency's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits and that the market value of collateral pledged equal to 105% of the uninsured deposits.

At June 30, 2010, the amount of government-wide cash and equivalents was \$345,070 and fiduciary cash equivalents and investments were \$997,427.

Cash in bank for Cumberland Area Investment Corporation is made up of the following:

	<u>Amount</u>	<u>Type of Account</u>
First National Bank of the Cumberlands	\$ 10,608	
Bank of Putnam County	42,377	Checking
Bank of Putnam County	2,562	
First National Bank of the Cumberlands	295,157	Checking
American Bank & Trust	148,794	Checking
Bank of Putnam County	42,368	Checking
Bank of Putnam County	149,805	Checking
Total	<u>\$ 691,661</u>	

At June 30, 2010, the carrying amount of Cumberland Area Investment Corporation's cash deposits was \$691,661. Category 1 includes deposits either covered by federal depository insurance agency in its name or by the Federal Reserve Banks acting as their party agents. Category 2 includes deposits covered by collateral Corporation's name. Category 3 includes deposits either uninsured, uncollateralized, or covered by collateral held by the pledging bank or its agent but not in Cumberland Area Investment Corporation's name.

	<u>Category</u>			<u>Balance</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash in checking	<u>\$ 250,000</u>	<u>\$ 441,661</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

The investments in the Fiduciary Fund consist of savings bonds and other investments held in the individual ward's name.

NOTE 4 - FIXED ASSETS

The following changes in capital assets occurred during the year ended June 30, 2010.

	<u>Balance 7/1/2009</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Depreciation Expense</u>	<u>Balance 6/30/2010</u>
Equipment and furniture	\$ 5,385	\$ 20,219	\$ -	\$ 4,774	\$ 20,830
Vehicles	82,861	-	-	15,409	67,452
Totals	<u>\$ 88,246</u>	<u>\$ 20,219</u>	<u>\$ -</u>	<u>\$ 20,183</u>	<u>\$ 88,282</u>

The following changes in capital assets occurred during the year ended June 30, 2010, for the component unit, Cumberland Area Investment Corporation.

	Balance 7/1/2009	Additions	Dispositions	Depreciation Expense	Balance 6/30/2010
Buildings	\$ 613,535	\$ -	\$ -	\$ 19,471	\$ 594,064
Equipment & Furniture	-	-	-	-	-
Vehicles	15,774	-	-	8,225	7,549
Totals	<u>\$ 629,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,696</u>	<u>\$ 601,613</u>

Capital assets are presented in the Statement of Net Assets (government-wide financial statements). The presentation includes all assets with a historical cost in excess of five thousand dollars that are currently in use by the agency or program. For this conversion year, a minimum of one year of remaining service was used to calculate the value of the asset for depreciation purposes.

Capital assets purchased from grants are recorded at acquisition cost and are shown as capital expenditures in the governmental financial statements but are properly reclassified to the Statement of Net Assets as fixed assets in the government-wide financial statements. Capital assets acquired from unrestricted resources are depreciated on a straight-line basis over estimated useful lives as prescribed by government depreciation tables.

Fiduciary Fund – Agency programs requiring fiduciary responsibility are accounted for in the Fiduciary Fund. UCDD's fiduciary responsibility is to account for participant assets by the agency under Public Guardianship program.

The Public Guardianship program was created by Title 14, Chapter 7, of Tennessee Code Annotated, "to aid disabled persons over sixty (60) years of age who have no family member or friend who is willing and able to serve as conservator or guardian." The agency manages wards' assets in accordance with court orders and trust agreements.

Assets such as real estate are stated at fair value at the time of transfer to the agency.

Budgetary Process

The agency does not have an annual appropriated budget. The grant documents, service contracts, and program projections serve as the financial plans for budgetary property.

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to generally liability, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance for general liability, loss of assets, employee dishonesty, and injuries to employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6- ECONOMIC DEPENDENCE

The District has been contracted by the Tennessee Commission on Aging to administer grant funds related to their various programs. These funds consistently represent greater than 50% of all grant funds administered by the District in a given year. The loss of this contract, which is possible but not expected, would have a significant impact on the District's operations.

NOTE 7 - LONG-TERM DEBT

Cumberland Area Investment Corporation obtained a loan from the Farmers Home Administration Intermediary Relending Program in the amount of \$2,000,000. The note is for 30 years at 1 percent interest per annum. Payments are to be made once a year on March 15. The principal repayment of this note is as follows:

<u>Principal</u>	<u>Interest</u>	
\$ 73,586	\$ 11,414	3/15/11
\$ 73,037	\$ 11,963	3/15/12
\$ 77,502	\$ 7,398	3/15/13
\$ 78,296	\$ 6,604	3/15/14
\$ 79,098	\$ 5,802	3/15/15
\$ 486,882		Thereafter

In March 1995 Cumberland Area Investment Corporation obtained an additional loan from Farmers Home Administration Intermediary Relending Program in the amount of \$1,000,000. The loan is to be repaid over 30 years at 1 percent interest, with interest only being paid for the first 3 years.

Payments are to be made once per year on March 29. The principal repayment of this note is as follows:

<u>Principal</u>	<u>Interest</u>	
\$ 37,482	\$ 6,988	3/28/11
\$ 36,707	\$ 7,743	3/28/12
\$ 37,374	\$ 5,116	3/28/13
\$ 37,767	\$ 4,733	3/28/14
\$ 38,153	\$ 4,347	3/28/15
\$ 423,935		Thereafter

During the year ended June 30, 2006, the organization borrowed \$250,000 from First National Bank of Cookeville. This note is payable at 5.5% interest in 60 payments of \$2,720.21. The future maturities for this debt are as follows:

<u>Principal</u>	<u>Interest</u>	
\$ 26,174	\$ 6,468	6/30/11
\$ 27,789	\$ 4,854	6/30/12
\$ 29,503	\$ 3,140	6/30/13
\$ 31,322	\$ 1,320	6/30/14
\$ -	\$ -	6/30/15
\$ -		Thereafter

NOTE 8 - CONCENTRATIONS

Cumberland Area Investment Corporation makes loans to encourage industrial development at a 14 county region. A substantial economic decline in the region could have a negative impact on the Organization's operations.

Also, the Organization has bank accounts that consistently exceed the \$250,000 limit insured by the FDIC.

Upper Cumberland Development District
Schedule of Administrative Costs
For the Year Ended June 30, 2010

Salaries	\$ 486,628
Contracted services	27,065
Fringe benefits	133,658
Travel	61,725
Occupancy	29,611
Supplies	21,317
Professional fees	21,895
Communications	48,006
Miscellaneous	494
Total administrative costs	<u>\$ 830,399</u>

Upper Cumberland Development District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

25

CFDA No.	Grantor/Pass Through Entity/Program	Contract Number	Amount of Award	Balance 7/1/2009	Cash Receipts	Federal Expenditures	Balance 6/30/2010
10.424	US department of Agriculture Intermediary Relending Program			\$ -	\$ 1,673,041	\$ 1,673,041	\$ -
11.302	U.S. Department of Commerce District Planning Grants	4830585001		-	31,689	63,189	(31,500)
11.307	Economic Adjustment Assistance			-	2,851,476	2,851,476	-
	Total US Department of Commerce			-	2,883,165	2,914,665	(31,500)
15.904	U.S. Department of Interior/Tennessee Department of Environment and Conservation Historic Preservation Fund	GG092589500 GG102942000	\$ 50,000 50,000	(22,609) -	22,609 29,533	50,000	(20,467) -
	Total Historic Preservation			(22,609)	52,142	50,000	(20,467)
20.205	U.S. Department of Transportation/Tennessee Department of Transportation Rural Planning-Center Hill Rural Planning-Dale Hollow Rural Planning-Center Hill Rural Planning-Dale Hollow Total U.S. Department of Transportation	GG102801800 GG102801700 Z0921544400 Z0921544300	\$ 52,216 \$ 52,216 \$ 52,216 \$ 52,216	- - (13,166) (12,740)	35,497 22,382 13,166 12,740	52,216 52,216	(16,719) (29,834)
				(25,906)	83,785	104,432	(46,553)
	Appalachian Regional Commission						
23.004	Tennessee Flexi-Grant	CO-13953	\$ 82,500	\$ (9,000)	\$ -	\$ -	\$ (9,000)
	Administrative Expense Grant	TN0710AC40	\$ 123,732	-	93,562	124,876	(31,314)
	Administrative Expense Grant	TN0710AC39	\$ 123,732	(30,933)	30,933		
	Total Appalachian Regional Commission			(39,933)	124,495	124,876	(40,314)

Upper Cumberland Development District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

26

CFDA No.	Grantor/Pass Through Entity/Program	Contract Number	Amount of Award	Balance 7/1/2009	Cash Receipts	Federal Expenditures	Balance 6/30/2010
U.S. Department of Health and Human Services/ Tennessee Commission on Aging and Disability							
93.041	Elder Abuse	GG102861800	\$ 5,400		\$ 4,100	\$ 6,000	\$ (1,900)
		GG092502100	\$ 5,500	\$ (600)	600		
				(600)	4,700	5,500	\$ (1,900)
93.042	Long-Term Care Ombudsman	GG102861800	\$ 24,600	(700)	700		
		GG102861800	\$ 23,700		15,600	24,800	(9,200)
				(700)	16,300	24,800	(9,000)
93.043	Title IIID - Disease Prevention	GG092502100	\$ 22,200	(3,100)	3,100		
	Title IIID - Medication Management	GG102861800	\$ 7,900		4,500	7,900	(3,400)
	Title IIID - Disease Prevention	GG102861800	\$ 22,200		16,600	24,900	(8,300)
	Total Title IIID				24,200	32,800	(11,700)
93.044	Aging Services IIIB	GG092502100	\$ 520,500	(88,725)	88,725		
	Aging Services IIIB	GG102861800	\$ 527,500		373,800	617,000	(243,200)
	Total Title IIIB			(88,725)	462,525	617,000	(3) (243,200)

Upper Cumberland Development District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

27

	<u>Grantor/Pass Through Entity/Program</u>	<u>Contract Number</u>	<u>Amount of Award</u>	<u>Balance 7/1/2009</u>	<u>Cash Receipts</u>	<u>Federal Expenditures</u>	<u>Balance 6/30/2010</u>
93.045	Aging Services IIIC-Congregate	GG092502100	\$ 271,500	(89,100)	89,100		
	Aging Services IIIC-Home Delivered	GG092502100	\$ 411,000	(33,300)	33,300		
	Aging Services IIIC-Planning	GG102861800	\$ 199,200		54,900	193,900	(139,000)
	Aging Services IIIC-Congregate	GG102861800	\$ 291,800		225,800	350,400	(124,600)
	Aging Services IIIC-Home Delivered	GG102861800	\$ 451,600		304,800	602,501	(297,701)
	Total Aging Services IIIC			(122,400)	707,900	1,146,801 (3)	(561,301)
93.048	SMPP	90AM2944/05	\$ 180,000	-	180,000	180,000	-
	<u>U.S. Department of Health and Human Services</u> <u>Tennessee/Commission on Aging and</u> <u>and Disability</u>						
93.052	Title III-E Planning	GG102861800	\$ 26,300	-	25,700	25,700	-
	Title III-E Caregiver	GG102861800	\$ 182,200		147,500	229,400	(81,900)
	Title III-E NFCSP Caregiver	GG092502100	\$ 323,300	(15,905)	15,905		
	Total Title III-E			(15,905)	189,105	255,100	(81,900)

Upper Cumberland Development District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

28

<u>Grantor/Pass Through Entity/Program</u>	<u>Contract Number</u>	<u>Amount of Award</u>	<u>Balance 7/1/2009</u>	<u>Cash Receipts</u>	<u>Federal Expenditures</u>	<u>Balance 6/30/2010</u>
93.052 NSIP Nutrition Program	GG102861800	\$ 111,000	\$ -	\$ 109,200	\$ 109,200	\$ -
93.707 ARRA Nutrition	31602-04011	\$ 142,230	(21,560)	27,895	27,895	
93.779 SCHIP	GG092502100	\$ 107,000	(11,700)	11,700		
	GG102861800	\$ 61,800		91,620	144,120	(52,500)
Total SCHIP			(11,700)	103,320	144,120	(52,500)
Total U.S. Department of Health and Human Services			(264,690)	1,825,043	2,625,819	(1,065,466)
Total Expenditures of Federal Awards			\$ (353,138)	\$ 6,641,671	\$ 7,492,833	\$ (1,204,300)

Notes to Schedule of Expenditure of Federal Awards:

- (1) This schedule has been prepared on the same basis of accounting as the financial statements.
- (2) This schedule reflects only the grantors share of expenditures.
- (3) Represents a major federal program.
- (4) Represents amount due from grantor at June 30, 2010.

Upper Cumberland Development District
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2010

29

<u>Agency/Program</u>	<u>Contract Number</u>	<u>Amount of Award</u>	<u>Balance 7/1/09</u>	<u>Cash Receipts</u>	<u>State Expenditures</u>	<u>Balance 6/30/10</u>
Tennessee Commission on Aging and Disability:						
State Caregiver	GG092502100	\$ 34,600	\$ (4,900)	\$ 4,900		
State Guardianship	GG092502100	\$ 133,700	(11,000)	11,000	132,500	
State In-Home Services	GG092502100	\$ 109,600	(10,200)	10,200	26,400	
State Senior Centers Operations	GG092502100	\$ 126,600	(35,700)	35,700	126,600	
Options	GG092502100	\$ 645,300	(230,900)	230,900	643,600	
Waiver	GG092548900	\$ 907,000	(117,600)	117,600	833,450	
Nutrition	GG092548900	\$ 48,600	(18,000)	18,000	48,600	
State Caregiver	GG108161800	\$ 33,500		19,800	33,500	(13,700)
Options	GG108161800	\$ 645,300		376,921	636,121	(259,200)
Waiver	GG108161800	\$ 894,333		569,229	701,114	(131,865)
State In-Home Services	GG108161800	\$ 109,600				
State Senior Centers Operations	GG108161800	\$ 126,600		74,400	126,600	(52,200)
State Guardianship	GG108161800	\$ 129,600		77,900	133,700	(55,800)
Total Tennessee Commission on Aging and Disability				1,491,000	1,879,355	(508,040)
Tennessee Department of Environment and Conservation:						
Solid Waste Management	Z0921342900	\$ 64,582	(26,984)	26,984		
Solid Waste Management	Z0921342900	\$ 43,302		34,521	42,893	(8,372)
Total Tennessee Department of Environment and Conservation			(10,461)	48,329	64,582	(26,984)

Upper Cumberland Development District
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2010

30

<u>Agency/Program</u>	<u>Contract Number</u>	<u>Amount of Award</u>	<u>Balance 7/1/09</u>	<u>Cash Receipts</u>	<u>State Expenditures</u>	<u>Balance 6/30/10</u>
Tennessee Advisory Commission on Intergovernmental Relations:						
Infrastructure Grant	GU082251200	\$ 51,750	(51,750)	51,750		
Infrastructure Grant	GU092599200	\$ 59,629		44,722	59,629	(14,907)
Total Tennessee Advisory Commission on Intergovernmental Relations			(51,750)	96,472	59,629	(14,907)
Tennessee Department of Economic and Community Development:						
Matching Funds Grant	GG092684800	\$ 150,000	-	150,000	150,000	-
State of Tennessee, Department of Children's Services:						
Relative Caregiver Program	GG061190202	\$ 325,000	(43,943)	43,943	325,000	(43,943)
Relative Caregiver Program	GG061190202	\$ 325,000		319,993	325,000	(5,007)
Total State of Tennessee, Department of Children's Services:			(88,136)	369,193	325,000	(43,943)

Upper Cumberland Development District
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2010

31

<u>Agency/Program</u>	<u>Contract Number</u>	<u>Amount of Award</u>	<u>Balance 7/1/09</u>	<u>Cash Receipts</u>	<u>State Expenditures</u>	<u>Balance 6/30/10</u>
Tennessee Developmental Housing Agency :						
Affordable Housing Program		\$ 20,000	(2,100)			(2,100)
Affordable Housing Program		\$ 20,000	(4,100)			(4,100)
Emergency Repair Program-Elderly		\$ 444,111		76,298	76,298	
Affordable Housing Program	DG092419801	\$ 20,000		18,475	20,000	(1,525)
Total Tennessee Developmental Housing Agency			(6,200)	94,773	96,298	(7,725)
Total expenditures of State Awards			(202,682)	\$ 2,249,767	\$ 2,575,134	\$ (601,559)

Notes to Schedule of Expenditure of State Awards:

- (1) This schedule has been prepared on the same basis of accounting as the financial statements.
- (2) This schedule reflects only the grantors share of expenditures.
- (3) Represents the amounts due from grantors.

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET

P.O. Box 1779

SUITE 300, MILLENNIUM SQUARE

MORRISTOWN, TENNESSEE 37816-1779

423-586-7650

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Upper Cumberland Development District

Compliance

We have audited the compliance of Upper Cumberland Development District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Upper Cumberland Development District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Upper Cumberland Development District's management. Our responsibility is to express an opinion on Upper Cumberland Development District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Upper Cumberland Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Upper Cumberland Development District's compliance with those requirements.

In our opinion, Upper Cumberland Development District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA, CFP, PFS
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA

Internal Control Over Compliance

The management of Upper Cumberland Development District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Upper Cumberland Development District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Upper Cumberland Development District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, the Board of Directors others within the entity, the State of Tennessee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Craine, Thompson + Jones P. C.

Morristown, Tennessee
January 15, 2011

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-585-7650

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Upper Cumberland Development District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Upper Cumberland Development District, as of and for the year ended June 30, 2010, which collectively comprise Upper Cumberland Development District's basic financial statements and have issued our report thereon dated January 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Upper Cumberland Development District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Upper Cumberland Development District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Upper Cumberland Development District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Upper Cumberland Development District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Upper Cumberland Development District's financial statements that is more than inconsequential will not be prevented or detected by the Upper Cumberland Development District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Upper Cumberland Development District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA, CFF, PFS
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Cumberland Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the State of Tennessee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Craine, Thompson + Jones P. C.

Morristown, Tennessee
January 15, 2011

Upper Cumberland Development District
Schedule of Findings and Questioned Costs
 Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

No

Reportable conditions identified not considered to be
 material weaknesses?

None

Reported

Noncompliance material to financial statements noted?

No

Federal Awards

Internal control over major programs:

Material weaknesses identified?

No

Reportable conditions identified not considered to be
 material weaknesses?

None

Reported

Type of auditor's report issued on compliance for major
 programs:

Unqualified

Any audit findings disclosed that are required to be
 reported in accordance with Circular A-133, Section 510(a):

No

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

10.424

Intermediary Relending Program

11.307

Economic Adjustment Assistance

93.044

Grants for Supportive Services and Senior Centers

93.045

Special Programs for the Aging - Title III, Part C

Dollar threshold used to distinguish between Type A and Type B programs

\$300,000

Auditee qualified as law-risk auditee

No

Section II - Financial Statement Findings:

No matters were reported

Section III - Federal Award Findings and Questioned Costs:

No matters were reported

UPPER CUMBERLAND DEVELOPMENT DISTRICT
COOKVILLE, TN

AUDIT REPORT

June 30, 2011

CRAINE, THOMPSON, & JONES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

UPPER CUMBERLAND DEVELOPMENT DISTRICT
Cookeville, Tennessee

AUDIT REPORT

June 30, 2011

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET

P.O. BOX 1779

SUITE 300, MILLENNIUM SQUARE

MORRISTOWN, TENNESSEE 37816-1779

423-586-7650

January 20, 2012

Board of Directors
Upper Cumberland Development District
Cookeville, Tennessee

In planning and performing our audit of the financial statements of Upper Cumberland Development District (UCDD) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered UCDD's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the UCDD's internal control. Accordingly, we do not express an opinion on the effectiveness of the UCDD's internal control.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement and will be pleased to discuss them in further detail at your convenience.

Sincerely,

Craine, Thompson & Jones P.C.

Craine, Thompson and Jones, P.C.

Upper Cumberland Development District
Management Points
For the Year Ended June 30, 2011

- 1) Consideration should be given for requiring board approval of special projects to be undertaken by the agency. At the present time, the executive director has the authority to engage in these projects as long as they comply with the purpose of the Development District as defined by the Tennessee Code Annotated.
- 2) The Board should undertake the creation of a comprehensive policies and procedures manual. This manual should incorporate appropriate policies for accounting, grants management and operations. Such a manual would give specific guidance to the executive director and other management employees for the day-to-day operations of the agency.
- 3) In the future, the minutes of the board of directors should be maintained in a manner that is sufficiently detailed to fully describe all actions considered and/or taken by the board. Board minutes should include those of board committees so that actions recommended to the board are thoroughly documented.
- 4) In the future, original receipts for all items presented for reimbursement of credit card purchases should be required before reimbursement is made to employees and officials. The finance department should review the supporting documentation for the charges before processing the reimbursement of them. The reimbursement of the executive director should at least be reviewed by the board's chairman before payment is made.
- 5) The board of directors and the executive director should receive monthly financial statements so that board members and management are always aware of the agency's current financial condition. Such statements should provide budget to actual comparisons so that budgetary operations can be monitored on an ongoing basis and the agency's cash position can be easily determined.
- 6) The finance department should expand the chart of accounts used by the agency so that expenditures are appropriately classified in financial statements. Use of the account entitled "Other" should be limited to amounts that are small and are entirely miscellaneous in nature. Grants and Special Projects should be so classified in the accounting records. Amounts recorded in the current fiscal year should be reviewed and reclassified.
- 7) The board should review the current structure and capabilities of the agency's finance department for the purpose of determining the adequacy of its size, personnel qualifications, and structure in consideration of the requirements that will be placed on this department by implementing these recommendations as well as its ability to meet current expectations.

Upper Cumberland Development District
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Section of Upper Cumberland Development District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

FINANCIAL HIGHLIGHTS

Government-Wide

- The District's assets exceed its liabilities by \$2,053,655 (net assets) at year-end June 30, 2011. This compares to the previous year when assets exceeded liabilities by \$1,963,468.
- Net assets consist of the following:
 - 1) Fixed assets, net of accumulated depreciation, increased \$231,840.
 - 2) Unreserved fund balance decreased by \$141,653.
 - 3) Net assets unrestricted decreased by \$166,845.
- The District's governmental-wide statements reported total ending net assets of \$2,053,655 for the year ended June 30, 2011. This compares to the prior year balance of \$1,963,468, an increase of \$90,187.

OVERVIEW OF FINANCIAL STATEMENTS

Managements Discussion and Analysis introduces the District's basic financial statements. The basic financial statements include: government wide financial statements; fund financial statements; and notes to the financial statements. The District also includes in this report additional information to supplement the financial statements.

Government-wide Financial Statements

The District's annual report includes two government-wide financial statements. These statements both provide long-term and short-term information about the District's status. Financial reporting at this level uses the economic resources measurement focus and the accrual basis of accounting, a perspective similar to that found in the private sector.

The first of these government-wide financial statements is the Statement of Net Assets. This is the District-wide statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's funds rather than the District as a whole. The District uses governmental funds.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of the short-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to assist in understanding the differences between these two perspectives.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. They provide explanation of the financial statements and provide more detailed data.

Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements.

Financial Analysis of the District as a Whole

The District implemented the new financial reporting model used in this report beginning with the fiscal year ended June 30, 2004. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the District as a whole.

The District's net assets increased \$90,187 during the fiscal year from a beginning balance of \$1,963,468 to \$2,053,655 at fiscal year end.

	Governmental Activities		Total Primary Government	
	2011	2010	2011	2010
Current and other assets	\$ 2,019,711	\$ 2,609,170	\$ 2,019,711	\$ 2,609,170
Capital assets	320,122	88,282	320,122	88,282
Total assets	2,339,833	2,697,452	2,339,833	2,697,452
Current liabilities	286,178	733,984	286,178	733,984
Net assets:				
Invested in capital assets, net of debt	320,122	88,282	320,122	88,282
Restricted	-	-	-	-
Temporarily restricted	-	-	-	-
Unrestricted	1,733,533	1,875,186	1,733,533	1,875,186
Total net assets	<u>\$ 2,053,655</u>	<u>\$ 1,963,468</u>	<u>\$ 2,053,655</u>	<u>\$ 1,963,468</u>

Since the Upper Cumberland Development District continues to derive the vast majority of its funding from the State and Federal governments, and those funds appear to be stable at the present time, the overall financial outlook of the District can be characterized as "good." Despite that fact, UCDD continues to seek and implement cost control measures as funding from those sources does not always increase on an annual basis in keeping up with the rate of inflation (i.e., labor, employee benefit, and other operating costs).

	Governmental Activities		Total Primary Government	
	2011	2010	2011	2010
Revenues:				
Program revenues:				
Charges for services	\$ 66,957	\$ 53,951	\$ 66,957	\$ 53,951
Operating grants	5,670,613	5,085,757	5,670,613	5,085,757
General revenues:				
Project revenue	911,976	457,530	911,976	457,530
Program revenue	129,397	1,827,899	129,397	1,827,899
Other general revenues	164,953	36,177	164,953	36,177
Total revenues	<u>6,943,896</u>	<u>7,461,314</u>	<u>6,943,896</u>	<u>7,461,314</u>
Program expenses:				
General government	1,405,983	1,663,121	1,405,983	1,663,121
Grants management	5,679,566	5,649,231	5,679,566	5,649,231
Total expenses	<u>7,085,549</u>	<u>7,312,352</u>	<u>7,085,549</u>	<u>7,312,352</u>
Increase in net assets	<u>\$ (141,653)</u>	<u>\$ 148,962</u>	<u>\$ (141,653)</u>	<u>\$ 148,962</u>

Financial Analysis of the Agency's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of expendable resources focus. This information is useful in assessing resources available at year-end in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$2,053,655.

General Fund

The general fund is the chief operating fund of Upper Cumberland Development District. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$1,733,533.

Grants Fund

The grants fund is the special revenue fund of Upper Cumberland Development District. At the end of the current fiscal year, unreserved, undesignated fund balance of the grants fund was \$0.

Capital Assets and Debt Administration

Capital Assets

The District's capital assets net of accumulated depreciation amounted to \$320,122. Depreciation in the current period was \$23,889.

Economic Factors and Next Year's Budget

While the Upper Cumberland Development District is a governmental entity, it is not a unit of local government (i.e., city, county, etc.). Therefore, economic factors do not have the same direct impact upon UCDD's budgets and operations as they have on governmental bodies. UCDD does not have taxing power, nor does it levy fees or set rates, such as for utilities, which generate income in response to changing economic conditions. UCDD contracts primarily with the State of Tennessee and to a lesser degree the Federal government, to administer certain programs on their behalf. To the extent that economic factors affect the State and Federal governments UCDD's contacts may be positively or negatively impacted.

Disruptions in the region's manufacturing sector have contributed to a slowdown in economic activity in the region during the past year. Two major closures have resulted in the loss of over 1,800 jobs in White and Warren Counties. Unemployment rates have risen to levels higher than the state and national rates. Other sectors have been increasing in employment, but these have not been fast enough to compensate for manufacturing losses. As a result, growth in retail activity and sales tax collections has weakened regionally. Certain areas of the region remain strong but overall growth in retail has fallen below statewide levels. Local leaders are aggressively pursuing new employment opportunities but fierce competition for new jobs means that major new projects are likely to be slow to develop.

On a more positive note, bank deposit data show growth rates exceeding state and national levels and the latest data from the Bureau of Economic Analysis show per capita personal income levels growing at a rate relatively faster than state and national rates. These income data are from 2003 and it remains to be seen what effect the aforementioned factors will have on later income trends.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like additional information, contact the District's Executive Director at 1225 South Willow Avenue, Cookeville, TN 38506.

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Upper Cumberland Development District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Upper Cumberland Development District, as of and for the year ended June 30, 2011, which collectively comprise the Development District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Upper Cumberland Development District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Upper Cumberland Development District, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2012, on our consideration of Upper Cumberland Development District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA, CFP, PFS
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Upper Cumberland Development District's basic financial statements. The introductory section and accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Upper Cumberland Development District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Craine, Thompson + Jones P.C.

Morristown, Tennessee
January 20, 2012

Upper Cumberland Development District
Statement of Net Assets
 June 30, 2011

	Governmental Activities	Total Primary Government	Component Unit
Assets			
Cash	\$ 622,276	\$ 622,276	\$ 1,533,806
Accounts receivable	264,704	264,704	-
Grants receivable	1,132,731	1,132,731	-
Current portion of notes receivable	-	-	614,644
Allowance for loan loss	-	-	(42,074)
Equipment, net	320,122	320,122	607,427
Other assets	-	-	6,135,672
	<u>\$ 2,339,833</u>	<u>\$ 2,339,833</u>	<u>\$ 8,849,475</u>
Total assets			
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 180,008	\$ 180,008	\$ 13,112
Accrued expenditures	106,170	106,170	5,855
Unearned grantor revenue	-	-	-
Current portion of notes payable	86,612	86,612	135,950
Long-term portion of notes payable	106,616	106,616	1,925,586
	<u>\$ 479,406</u>	<u>\$ 479,406</u>	<u>\$ 2,080,503</u>
Total liabilities			
Net Assets:			
Invested in capital assets, net of related debt	\$ 126,894	\$ 126,894	\$ -
Restricted for:			
Loan activity	1,733,533	1,733,533	6,492,942
Unrestricted	-	-	276,030
	<u>\$ 1,860,427</u>	<u>\$ 1,860,427</u>	<u>\$ 6,768,972</u>
Total net assets			

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Statement of Activities
 For the Year Ended June 30, 2011

	Expenses	User Charges	Operating Grants	Net(expense) Revenue and Changes in Net Assets	Component Unit CAIC
Governmental activities	<u>\$ 7,046,937</u>	<u>\$ 66,957</u>	<u>\$ 5,670,613</u>	<u>\$ (1,309,367)</u>	<u>\$ -</u>
Component Unit: CAIC	<u>\$ 310,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(310,945)</u>
General revenue:				911,976	
Project revenue				129,397	80,433
Program income				162,832	
Donations				2,121	284,554
Interest earned				<u>1,206,326</u>	<u>364,987</u>
Total general revenue				<u>(103,041)</u>	<u>54,042</u>
Increase in net assets					
Net assets, beginning				1,963,468	6,965,131
Prior period adjustment				-	(250,202)
Net assets, beginning, as adjusted				<u>1,963,468</u>	<u>6,714,929</u>
Net assets, ending				<u>\$ 1,860,427</u>	<u>\$ 6,768,971</u>

The accompanying notes are integral part of these financial statements.

Upper Cumberland Development District
Balance Sheet - Governmental Funds
 June 30, 2011

	General Fund	Special Revenue Fund	Total
Assets			
Cash	\$ 622,276	\$ -	\$ 622,276
Accounts receivable	264,704	-	264,704
Grants receivable	-	1,132,731	1,132,731
Due from other funds	1,132,731	-	1,132,731
	<u>\$ 2,019,711</u>	<u>\$ 1,132,731</u>	<u>\$ 3,152,442</u>
Total assets			
 Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ 180,008	\$ -	\$ 180,008
Accrued expenditures	106,170	-	106,170
Unearned grantor revenue	-	1,132,731	1,132,731
Due to other funds	-	-	-
	<u>286,178</u>	<u>1,132,731</u>	<u>1,418,909</u>
Total liabilities			
	<u>1,733,533</u>	<u>-</u>	<u>1,733,533</u>
Fund balance			
	<u>\$ 2,019,711</u>	<u>\$ -</u>	
Total liabilities and fund balance			
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			320,122
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds			(193,228)
Net assets of governmental activities			<u>\$ 1,860,427</u>

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Statement of Revenues, Expenditures, and
Changes in Fund Balance
 FYE 6/30/11

	General Fund	Grants Funds	Totals
Revenue:			
Grantor contributions	\$ 180,000	\$ 5,490,613	\$ 5,670,613
Revenue from projects	911,976	-	911,976
Revenue from dues	66,957	-	66,957
Program income	60,697	68,700	129,397
In-kind revenue	-	92,063	92,063
Donations and fundraisers	70,769	-	70,769
Interest earned	2,121	-	2,121
	<u>1,292,520</u>	<u>5,651,376</u>	<u>6,943,896</u>
Total Revenues			1,815,020
Expenditures:			
Salaries	540,216	1,274,804	1,815,020
Fringe benefits	163,938	306,058	469,996
Supplies	14,134	70,830	84,964
Communication	30,497	82,130	112,627
Professional fees	4	23,921	23,925
Occupancy	38,129	84,589	122,718
Travel	98,481	183,214	281,695
Contracted services	7,628	230,205	237,833
Financial aid	5,714	111,950	117,664
Administrative cost	260,674	595,466	856,140
Payments to subcontractors	676	2,597,569	2,598,245
Fund raising	31,904	-	31,904
Interest expense	-	5,402	5,402
In-kind expenses	-	92,063	92,063
Equipment and vehicles	-	-	-
Other expense	213,988	21,365	235,353
	<u>1,405,983</u>	<u>5,679,566</u>	<u>7,085,549</u>
Total expenditures			(141,653)
Excess of revenue over(under) expenditures	(113,463)	(28,190)	
Other sources(uses) of funds:			
Operating transfer	(28,190)	28,190	-
	(141,653)	-	(141,653)
Excess of revenue over expenditures and other uses			1,875,186
Fund balance, beginning	<u>1,875,186</u>	<u>-</u>	<u>1,875,186</u>
Fund balance, ending	<u>\$ 1,733,533</u>	<u>\$ -</u>	<u>\$ 1,733,533</u>

The accompanying notes are integral part of these financial statements.

Upper Cumberland Development District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
 For the Year Ended June 30, 2011

Amounts reported for governmental activities in the statement
 of activities (page 8) are different because:

Net change in fund balance - total governmental funds (page 10)

\$ (141,653)

Governmental funds report capital outlays as expenditures. However, in
 the statement of activities the cost of those assets is allocated over
 their estimated useful lives and reported as depreciation expense. This
 is the amount by which depreciation exceeded capital outlays in the
 current period.

231,840

The issuance of long-term debt provides current financial resources to
 governmental funds, while the repayment of the principal of long-term
 debt consumes the current financial resources of governmental funds.
 Neither transaction, however, has any effect on net assets. This amount
 is the net effect of these differences in the treatment of long-term debt
 and related items.

(193,228)

Change in net assets of governmental activities

\$ (103,041)

The accompanying notes are an integral part of these financial statements.

Cumberland Area Investment Corporation
Statement of Activities
 For the Year Ended June 30, 2011

Unrestricted Net Assets

	\$ 2,923
Interest-bank accounts	80,433
Other income	
	<u>83,356</u>
Total increase in unrestricted net assets	
Expenses:	58,685
Payroll	18,023
Payroll taxes and fringe benefits	23,889
Depreciation expense	3,868
Supplies	3,788
Communications	4,083
Occupancy	5,606
Travel	27,785
Contractual	8,867
Miscellaneous expense	12,521
Titles and taxes	4,830
Audit	103,627
Bad debt expense	6,231
Insurance	120
Bank charges	
	<u>281,923</u>
Total expenses	
Increase (decrease) in unrestricted net assets before interest expense	(198,567)
	29,022
Interest expense	
Net assets released from temporary restriction:	
Satisfaction of usage requirement	<u>252,902</u>
	<u>83,357</u>
Increase in unrestricted net assets	
	442,875
Unrestricted net assets, July 1	(250,202)
Prior period adjustment	<u>192,673</u>
Unrestricted net assets, July 1, as adjusted	
	<u>\$ 276,030</u>
Unrestricted net assets, June 30	

The accompanying notes are an integral part of these financial statements.

Cumberland Area Investment Corporation
Statement of Activities
For the Year Ended June 30, 2011

Temporarily Restricted Net Assets

Increases:	
Interest- loans	\$ 281,631
Decreases:	
Release of restriction	<u>310,945</u>
Increase in temporarily restricted net assets	(29,314)
Temporarily restricted net assets, July 1	<u>3,844,056</u>
Temporarily restricted net assets, June 30	<u><u>\$ 3,814,742</u></u>

Permanently Restricted Net Assets

Increases:	\$ -
Decreases:	<u> </u>
Increase in permanently restricted net assets	
Permanently restricted net assets, July 1	<u>2,678,200</u>
Permanently restricted net assets, June 30	<u><u>\$ 2,678,200</u></u>

The accompanying notes are an integral part of these financial statements.

Cumberland Area Investment Corporation
Statement of Cash Flows
For the Year Ended June 30, 2011

14

Cash flows from operating activities:

Payments received on notes receivable	\$ 1,338,417
Interest received from banks	2,923
Other Cash received	80,433
Proceeds from sale of property held for resale	318,332
Operating expenses	(278,571)
New loans	(664,000)

Net cash provided by operating activities	<u>797,534</u>
---	----------------

Cash flows from financing activities:

Principal payments on loans	73,264
Interest paid on loans	(28,653)

Net cash provided by financing activities	<u>44,611</u>
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Net increase in cash and cash equivalents	842,145
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Cash and cash equivalents, July	<u>691,661</u>
---------------------------------	----------------

Cash and cash equivalents, June 30	<u><u>\$ 1,533,806</u></u>
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Reconciliation of increase in net assets to net cash
provided by operating activities:

Increase in net assets	\$ 54,043
Depreciation	23,889
Decrease in notes receivable	735,970
Decrease in accounts payable	(16,368)

Net cash provided by operating activities	<u><u>\$ 797,534</u></u>
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The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Public Guardian Fiduciary Fund
Statement of Net Assets
June 30, 2011

Assets:	
Cash and cash equivalents	\$ 1,402,818
Investments at fair value:	
Property & vehicles	<u>427,845</u>
	\$ <u>1,830,663</u>
Total assets	
Net assets:	
Held in trust	<u>\$ 1,830,663</u>

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
 Public Guardian Fiduciary Fund
Statement of Changes in Net Assets
 For the Year Ended June 30, 2011

Additions:	\$ 1,081,993
Contributions	559,223
Retirement benefits	117,424
Dividends & interest	157,245
Transfers	7,409
Sale of property	49,565
Other	
	<u>1,972,859</u>
Total additions	
	805,423
Deductions:	25,208
Client expenses	69,039
Professional and legal	453
Conservator fees	4,852
Taxes	94,670
Court fees	139,935
Transfers	43
Estates	
Other	
	<u>1,139,623</u>
Total deductions	
	833,236
Increase in net assets	
	<u>997,427</u>
Net assets, beginning	
	<u>\$ 1,830,663</u>
Net assets, ending	

The accompanying notes are an integral part of these financial statements.

Upper Cumberland Development District
Notes to Financial Statements
 June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Upper Cumberland Development District (District) is a multi-funded quasi-governmental agency created in accordance with Chapter 241 of the Public Acts of 1965, known as the Development District Act. The Upper Cumberland Development District was established in 1969, and serves 14 counties in the Upper Cumberland area. The primary function of the Development District is to assist the local government agencies in economic development, including the areas of housing, assistance to the elderly, and community development planning. These programs are funded for the most part through federal grants, with matching assistance from the local and state levels.

The Governing Board consists of:

- County and City Mayors within the established region served by the agency,
- One State Senator and one State Representative whose districts lie wholly or in part within the established region served by the agency,
- and one additional member from each county of the region, appointed by the County Mayor.

The District has one discreetly-presented component unit, Cumberland Area Investment Corporation.

The Cumberland Area Investment Corporation is a government-funded agency chartered as a Tennessee general corporation pursuant to Section 48-1201 of the Tennessee General Corporation Act. The Cumberland Area Investment Corporation was established in 1982 by Upper Cumberland Development District as a separate entity to accept and administer federal loan programs. Cumberland Area Investment Corporation serves 14 counties in the Upper Cumberland area. The primary function of the Cumberland Area Investment Corporation is to assist residential and commercial development with its chief goal being the economic development of manufacturing and commercial business by providing long-term financing at available market rates from funds provided by government funding and administered by the Cumberland Area Investment Corporation.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* which normally are supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *governmental revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the propriety fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The discreetly-presented component unit, Cumberland Area Investment Corporation, maintains its accounts on an *accrual basis*, recognizing revenue as earned and expenses as they are incurred.

The government reports the following governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* accounts for the resources received and expenditures incurred in connection with grants received by the agency.

The *fiduciary fund*, a private purpose trust fund, accounts for funds managed by the Public Guardian on behalf of clients assigned to the program by the courts.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally, dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue for the agency is shown as contributions from beneficiaries.

Disbursements for the wards, their estates or other third parties representing the wards are shown as distributions to beneficiaries.

Budget Process

The agency does not have an annual appropriated budget. The grant documents, service contracts, and program projections serve as the financial plans for budgetary purposes.

NOTE 2 – OTHER ACCOUNTING MATTERS

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Property and Equipment – Purchases of property and equipment by UCDD with unrestricted funds with a unit cost of \$5,000 or more are capitalized and depreciated by the straight-line method over their estimated useful lives. For Cumberland Area Investment Corporation purchases of property and equipment with unrestricted funds with a unit cost of \$500 or more be capitalized and depreciated by the straight-line method over their estimated useful lives.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The principal bank accounts are in a financial institution that participates in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Other deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the Agency. Category 1 consists of deposits that are insured or collateralized with securities held by the Agency or by its agent in the Agency's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name. Category 3 deposits are uninsured and uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Agency's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits and that the market value of collateral pledged equal to 105% of the uninsured deposits.

At June 30, 2011, the amount of government-wide cash and equivalents was \$622,276 and fiduciary cash equivalents and investments were \$1,830,663.

Cash in bank for Cumberland Area Investment Corporation is made up of the following:

	<u>Amount</u>	<u>Type of Account</u>
First National Bank of Tennessee	\$ 21,912	Checking
American Bank & Trust of the Cumberlands	21,237	Checking
Bank of Putnam County	2,445	Checking
First National Bank of Tennessee	831,846	Money Market
American Bank & Trust of the Cumberlands	184,898	Checking
Bank of Putnam County	56,141	Checking
Bank of Putnam County	415,327	Checking
Total	<u>\$ 1,533,806</u>	

At June 30, 2011, the carrying amount of Cumberland Area Investment Corporation's cash deposits was \$1,533,806. Category 1 includes deposits either covered by federal depository insurance agency in its name or by the Federal Reserve Banks acting as their party agents. Category 2 includes deposits covered by collateral in the Corporation's name. Category 3 includes deposits either uninsured, uncollateralized, or covered by collateral held by the pledging bank or its agent but not in Cumberland Area Investment Corporation's name.

	<u>Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>
Cash in checking	<u>\$ 500,000</u>	<u>\$ 1,033,806</u>	<u>\$ -</u>	<u>\$ 1,533,806</u>

Investments

The investments in the Fiduciary Fund consist of savings bonds and other investments held in the individual ward's name and are valued at their basis at the time they are placed under the court's control.

Transfers

Transfers of funds were made for the following purposes:

<u>Transferred From</u>	<u>Transferred To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$ 28,190	Meet grant matching requirements

NOTE 4 – FIXED ASSETS

The following changes in net capital assets occurred during the year ended June 30, 2011.

	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Depreciation Expense</u>	<u>Balance 6/30/2011</u>
Equipment and furniture	\$ 20,830	\$ 15,681	\$ -	\$ 7,948	\$ 28,563
Vehicles	67,452	270,704	-	46,597	291,559
Totals	<u>\$ 88,282</u>	<u>\$ 286,385</u>	<u>\$ -</u>	<u>\$ 54,545</u>	<u>\$ 320,122</u>

The following changes in net capital assets occurred during the year ended June 30, 2011, for the component unit, Cumberland Area Investment Corporation.

	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Depreciation Expense</u>	<u>Balance 6/30/2011</u>
Buildings	\$ 623,768	\$ -	\$ -	\$ 19,471	\$ 604,297
Equipment & Furniture	-	-	-	-	-
Vehicles	7,549	-	-	4,419	3,130
Totals	<u>\$ 631,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,890</u>	<u>\$ 607,427</u>

Capital assets are presented in the Statement of Net Assets (government-wide financial statements). The presentation includes all assets with a historical cost in excess of five thousand dollars that are currently in use by the agency or program. For this conversion year, a minimum of one year of remaining service was used to calculate the value of the asset for depreciation purposes.

Capital assets purchased from grants are recorded at acquisition cost and are shown as capital expenditures in the governmental financial statements but are properly reclassified to the Statement of Net Assets as fixed assets in the government-wide financial statements. Capital assets acquired from unrestricted resources are depreciated on a straight-line basis over estimated useful lives as prescribed by government depreciation tables.

Fiduciary Fund – Agency programs requiring fiduciary responsibility are accounted for in the Fiduciary Fund. UCDD's fiduciary responsibility is to account for participant assets by the agency under Public Guardianship program.

The Public Guardianship program was created by Title 14, Chapter 7, of Tennessee Code Annotated, "to aid disabled persons over sixty (60) years of age who have no family member or friend who is willing and able to serve as conservator or guardian." The agency manages wards' assets in accordance with court orders and trust agreements.

Assets such as real estate are stated at fair value at the time of transfer to the agency.

Budgetary Process

The agency does not have an annual appropriated budget. The grant documents, service contracts, and program projections serve as the financial plans for budgetary property.

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to generally liability, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance for general liability, loss of assets, employee dishonesty, and injuries to employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6- ECONOMIC DEPENDENCE

The District has been contracted by the Tennessee Commission on Aging to administer grant funds related to their various programs. These funds consistently represent greater than 50% of all grant funds administered by the District in a given year. The loss of this contract, which is possible but not expected, would have a significant impact on the District's operations.

NOTE 7 – LONG-TERM DEBT

Cumberland Area Investment Corporation obtained a loan from the Farmers Home Administration Intermediary Relending Program in the amount of \$2,000,000. The note is for 30 years at 1 percent interest per annum. Payments are to be made once a year on March 15. The principal repayment of this note is as follows:

<u>Principal</u>	<u>Interest</u>	
\$ 71,454	\$ 11,963	3/15/12
\$ 77,502	\$ 7,398	3/15/13
\$ 78,296	\$ 6,604	3/15/14
\$ 79,098	\$ 5,802	3/15/15
\$ 80,326	\$ 4,574	3/15/16
\$ 491,453		Thereafter

In March 1995 Cumberland Area Investment Corporation obtained an additional loan from Farmers Home Administration Intermediary Relending Program in the amount of \$1,000,000. The loan is to be repaid over 30 years at 1 percent interest, with interest only being paid for the first 3 years.

Payments are to be made once per year on March 29. The principal repayment of this note is as follows:

<u>Principal</u>	<u>Interest</u>	
\$ 36,707	\$ 7,743	3/28/12
\$ 37,374	\$ 5,116	3/28/13
\$ 37,767	\$ 4,733	3/28/14
\$ 38,153	\$ 4,346	3/28/15
\$ 35,994	\$ 6,506	3/28/16
\$ 390,240		Thereafter

During the year ended June 30, 2006, the organization borrowed \$250,000 from First National Bank of Cookeville. This note is payable at 5.5% interest in 60 payments of \$2,720.21. The future maturities for this debt are as follows:

<u>Principal</u>	<u>Interest</u>	
\$ 27,789	\$ 4,854	6/30/12
\$ 29,503	\$ 3,140	6/30/13
\$ 31,322	\$ 1,320	6/30/14
\$ 31,058	\$ 1,320	6/30/15
\$ -	\$ -	6/30/16
\$ -		Thereafter

During the year ended June 30, 2009, the organization obtained a third loan from the Farmers Home Administration Intermediary Relending Program. Total draws at June 30, 2011, are \$487,500. The promissory note requires payments of interest only at 1% annually beginning September 5, 2009, through September 5, 2011. Principal and interest payments begin on September 5, 2012, for the remaining 27 years. The future maturities are as follows:

<u>Principal</u>	<u>Interest</u>	
\$ -	\$ 4,875	6/30/12
\$ 15,430	\$ 5,280	6/30/13
\$ 15,989	\$ 4,721	6/30/14
\$ 16,148	\$ 4,561	6/30/15
\$ 16,310	\$ 4,399	6/30/16
\$ 423,623	\$ 52,687	Thereafter

NOTE 8 - CONCENTRATIONS

Cumberland Area Investment Corporation makes loans to encourage industrial development at a 14 county region. A substantial economic decline in the region could have a negative impact on the Organization's operations.

Also, the Organization has bank accounts that consistently exceed the \$250,000 limit insured by the FDIC.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$(250,202) was necessary for the year ending June 30, 2011, for Cumberland Area Investment Corporation. The adjustment was necessary due to an accounting error.

Upper Cumberland Development District
Schedule of Administrative Costs
For the Year Ended June 30, 2011

Salaries	\$ 512,445
Contracted services	6,897
Fringe benefits	135,835
Travel	53,228
Occupancy	34,751
Supplies	37,393
Professional fees	20,157
Communications	53,773
Miscellaneous	<u>1,561</u>
Total administrative costs	<u><u>\$ 856,040</u></u>

Upper Cumberland Development District
Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

CFDA No.	Grantor/Pass Through Entity/Program	Contract Number	Amount of Award	Balance 7/1/2010	Cash Receipts	Federal Expenditures	Balance 6/30/2011
	US department of Agriculture			\$ -	\$ 1,673,041	\$ 1,673,041	\$ -
10.424	Inrmediary Relending Program						
	U.S. Department of Commerce	48306307	\$ 189,000	(31,500)	63,000	63,000	(31,500) (4)
11.302	District Planning Grants			-	2,973,845	2,973,845	-
11.307	Economic Adjustment Assistance			(31,500)	3,036,845	3,036,845	(31,500)
	Total U. S. Department of Commerce			(10,729)	-	-	(10,729)
14.235	Supportive Housing Program						
	U.S. Department of Interior/Tennessee						
	Department of Eenvironment and Conservation				45,955	50,000	(4,045) (4)
15.904	Historic Preservation Fund	GG-1133014	\$ 50,000	(20,467)	20,467	-	-
	Historic Preservation Fund	GG102942000	\$ 50,000	(20,467)	66,422	50,000	(4,045)
	Total Historic Preservation						
	U.S. Department of Transportation/Tennessee						
	Department of Transportation			(16,719)	16,719	-	-
20.205	Rural Planning-Center Hill	GG102801800	\$ 52,216	(29,834)	29,834	-	-
	Rural Planning-Dale Hollow	GG102801700	\$ 52,216	-	33,428	52,216	(18,788) (4)
	Rural Planning-Center Hill	GG-1132028	\$ 52,216	-	35,409	52,216	(16,807) (4)
	Rural Planning-Dale Hollow	GG-1132029	\$ 52,216	(46,553)	115,390	104,432	(35,595)
	Total U.S. Department of Transportation						
	Appalachian Regional Commission						(9,000) (4)
23.004	Tennessee Flexi-Grant	CO-13953	\$ 82,500	(9,000)	-	-	-
	Administrative Expense Grant	TN0710AC40	\$ 125,257	(31,315)	62,629	31,314	-
	Administrative Expense Grant	TN0710AC41	\$ 125,257	-	62,628	62,628	-
	Total Appalachian Regional Commission			(40,315)	125,257	93,942	(9,000)
	Environmental Protection Agency						
66.818	Brownfields Assessment & Cleanup Co-op	BF-95441709-0	\$ 400,000	-	59,746	59,746	-

Upper Cumberland Development District
Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

CFDA No.	Grantor/Pass Through Entity/Program	Contract Number	Amount of Award	Balance 7/1/2010	Cash Receipts	Federal Expenditures	Balance 6/30/2011	
U.S. Department of Health and Human Services/ Tennessee Commission on Aging and Disability								
93.707	ARRA - Home Delivered	CV-620801436-00	\$ 78,020	-	78,020	78,020	-	
93.705	ARRA - Congregate	CV-620801436-00	\$ 15,885	-	15,885	15,885	-	
93.707	ARRA - Home Delivered	CV-620801436-00	\$ 31,280	(25,047)	25,047	-	-	
93.705	ARRA - Congregate	CV-620801436-00	\$ 63,540	(63,540)	63,540	-	-	
				<u>(88,587)</u>	<u>182,492</u>	<u>93,905</u>	<u>-</u>	
93.041	Elder Abuse	GG-10-28618-00	\$ 6,000	(1,900)	1,900	-	-	
	Elder Abuse		\$ 5,490	-	4,400	5,490	(1,090)	(4)
				<u>(1,900)</u>	<u>6,300</u>	<u>5,490</u>	<u>(1,090)</u>	
93.042	Long-Term Care Ombudsman	GG-10-28618-00	\$ 24,800	(9,200)	9,200	-	-	
	Long-Term Care Ombudsman		\$ 24,793	-	21,100	24,793	(3,693)	(4)
				<u>(9,200)</u>	<u>30,300</u>	<u>24,793</u>	<u>(3,693)</u>	
93.043	Title IIID - Disease Prevention	GG-10-28618-00	\$ 24,900	(8,300)	8,300	-	-	
	Title IIID - Medication Management	GG-10-28618-00	\$ 7,900	(3,400)	3,400	-	-	
	Title IIID - Disease Prevention		\$ 22,317	-	21,100	21,317	(217)	(4)
	Title IIID - Medication Management		\$ 8,353	-	6,600	8,353	(1,753)	(4)
	Total Title IIID			<u>(11,700)</u>	<u>39,400</u>	<u>29,670</u>	<u>(1,970)</u>	
93.044	Aging Services IIIB	GG-1132499	\$ 510,010	-	435,900	510,010	(74,110)	(4)
	Aging Services IIIB	GG-10-28618-00	\$ 617,000	(243,200)	243,200	-	-	
	IIIB ADRC One Time	GG-10-28618-00	\$ 21,600	-	-	-	-	
	Total Title IIIB			<u>(243,200)</u>	<u>679,100</u>	<u>510,010</u>	<u>(74,110)</u>	

Upper Cumberland Development District
Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

	Contract Number	Amount of Award	Balance 7/1/2010	Cash Receipts	Federal Expenditures	Balance 6/30/2011	
						(53,890)	(4)
93.045	<u>Grantor/Pass Through Entity/Program</u>						
	GG-1132499	\$ 299,590	-	245,700	299,590	-	
	GG-1132499	\$ 466,933	-	466,933	466,933	-	
	GG-1132499	\$ 199,200	-	79,900	199,200	(119,300)	(4)
	GG-10-28618-00	\$ 193,900	(139,000)	139,000	-	-	
	GG-10-28618-00	\$ 350,400	(124,600)	124,600	-	-	
	GG-10-28618-00	\$ 589,500	(297,701)	297,701	-	-	
			(561,301)	1,353,834	965,723	(173,190)	
			-	126,969	115,176	11,793	
			-	180,000	180,000	-	
			-	306,969	295,176	11,793	
93.928	Senior Medicare Patrol Project	90MP0079/01 \$ 126,969	-	-	-	-	
	Senior Medicare Patrol Project	90AM2944/06 \$ 180,000	-	-	-	-	
	Total Senior Medicare Patrol Project		-	-	-	-	
<u>U.S. Department of Health and Human Services</u>							
<u>Tennessee/Commission on Aging and</u>							
<u>and Disability</u>							
	GG-1132499	\$ 26,300	-	26,300	26,300	-	
	GG-1132499	\$ 183,014	-	183,014	183,014	-	
93.052	Title IIIIE Planning	GG-10-28618-00 \$ 229,400	(81,900)	81,900	-	-	
	Title IIIIE NFCSP Caregiver		(81,900)	291,214	209,314	-	
	Title IIIIE NFCSP Caregiver		-	100,900	111,468	(10,568)	(4)
	Total Title IIIIE		(42,900)	42,900	-	-	
93.053	NSIP Nutrition Program	GG-10-28618-00 \$ 133,400	(42,900)	143,800	111,468	(10,568)	
	NSIP Nutrition Program		-	99,145	119,412	(20,267)	(4)
	Total NSIP Nutrition Program		(52,500)	52,500	-	-	
93.779	SCHIP	\$ 126,600	(9,210)	9,210	-	-	
	SCHIP	IX0CMS030426/01 \$ 28,630	(4,080)	4,080	-	-	
	SCHIP	1Y0MS030373/01 \$ 12,690	(8,280)	8,280	-	-	
	SCHIP	09AATNMIPP \$ 25,740	(4,160)	4,160	-	-	
	AAA	09AATNMIDR \$ 12,912	(78,230)	177,375	119,412	(20,267)	
	ADRC		-	-	-	-	
	Total SCHIP		(1,118,918)	3,210,784	2,364,961	(273,095)	
	Total U.S. Department of Health and Human Services		\$ (1,268,482)	\$ 8,287,485	\$ 7,382,967	\$ (363,964)	
	Total Expenditures of Federal Awards						

Notes to Schedule of Expenditure of Federal Awards:

- (1) This schedule has been prepared on the same basis of accounting as the financial statements.
- (2) This schedule reflects only the grantors share of expenditures.
- (3) Represents a major federal program.
- (4) Represents amount due from grantor at June 30, 2011.

Upper Cumberland Development District
Schedule of Expenditures of State Awards
 For the Year Ended June 30, 2011

Agency/Program	Contract Number	Amount of Award	Balance 7/1/10	Cash Receipts	State Expenditures	Balance 6/30/11	
Tennessee Commission on Aging and Disability:							
State Caregiver	GG-1132499	\$ 33,500	\$ -	\$ 25,700	\$ 33,500	\$ (7,800)	(3)
State Guardianship	GG-1132499	\$ 129,600	-	108,000	129,600	(21,600)	(3)
State In-Home Services	GG-1132499	\$ 25,500	-	19,400	25,500	(6,100)	(3)
State Senior Centers Operations	GG-1132499	\$ 126,600	-	106,100	126,600	(20,500)	(3)
Options	GG-1132499	\$ 624,800	-	540,100	624,800	(84,700)	(3)
Waiver	GG-08-22358-01	\$ 379,000	(65,134)	-	-	(65,134)	(3)
Waiver	GG092548900	\$ 907,000	(44,050)	-	-	(44,050)	(3)
Waiver	GG071270601		(14,606)	-	-	(14,606)	(3)
Waiver	GG-10-28618-00	\$ 894,333	-	333,010	718,217	(385,207)	(3)
Waiver	GG-1132499	\$ 65,029	-	41,600	65,029	(23,429)	(3)
Nutrition	CV-620801436-00	\$ 1,380	-	1,380	1,380	-	
ARRA - State Match Home Delivered	CV-620801436-00	\$ 2,810	-	2,810	2,810	-	
ARRA - State Match Congregate	CV-620801436-00	\$ 5,520	(3,963)	3,963	-	-	
ARRA - State Match Home Delivered	CV-620801436-00	\$ 11,210	(11,210)	11,210	-	-	
ARRA - State Match Congregate	GG-10-28618-00	\$ 33,500	(13,700)	13,700	-	-	
State Caregiver	GG-10-28618-00	\$ 624,800	(259,200)	259,200	-	-	
Options	GG-10-28618-00	\$ 894,333	(131,885)	131,885	-	-	
Waiver	GG-10-28618-00	\$ 25,500	(10,600)	10,600	-	-	
State In-Home Services	GG-10-28618-00	\$ 126,600	(52,200)	52,200	-	-	
State Senior Centers Operations	GG-10-28618-00	\$ 133,700	(55,800)	55,800	-	-	
State Guardianship							
Total Tennessee Commission on Aging and Disability			(662,348)	1,716,658	1,727,436	(673,126)	
Tennessee Deptmt of Environment and Conservation:							
Solid Waste Management	Z0921342900	\$ 43,302	(8,372)	8,372	-	-	
Solid Waste Management	GG-1133495	\$ 41,608	-	30,883	41,608	(10,725)	(3)
Total Tennessee Department of Environment and Conservation			(8,372)	39,255	41,608	(10,725)	

Upper Cumberland Development District
Schedule of Expenditures of State Awards
 For the Year Ended June 30, 2011

Agency/Program	Contract Number	Amount of Award	Balance 7/1/09	Cash Receipts	State Expenditures	Balance 6/30/10	
Tennessee Advisory Commission on Intergovernmental Relations:							
Infrastructure Grant	GU1029457	\$ 59,629	(26,833)	26,833	-	-	
Infrastructure Grant	GU1029457	\$ 59,629	-	41,740	59,629	(17,889)	(3)
Total Tennessee Advisory Commission on Intergovernmental Relations			(26,833)	68,573	59,629	(17,889)	
Tennessee Department of Economic and Community Development:							
Matching Funds Grant	GG-1134291	\$ 180,000	-	180,000	180,000	-	
State of Tennessee, Department of Children's Services:							
Relative Caregiver Program	GG-1131375	\$ 276,250	-	228,740	276,250	(47,510)	(3)
Relative Caregiver Program	GG061190202	\$ 325,000	(5,007)	5,007	-	-	
Total State of Tennessee, Department of Children's Services:			(5,007)	233,747	276,250	(47,510)	
Tennessee Developmental Housing Agency :							
Affordable Housing Program		\$ 20,000	(300)	300	-	-	
Affordable Housing Program	31620-00041	\$ 20,000	-	20,000	20,000	-	
Emergency Repair Program-Elderly	Z-07-038327-00	\$ 666,666	-	235,636	235,636	-	
Total Tennessee Developmental Housing Agency			(300)	255,936	255,636	-	
Total expenditures of State Awards			\$ (702,860)	\$ 2,494,169	\$ 2,540,559	\$ (749,250)	

Notes to Schedule of Expenditure of State Awards:

- (1) This schedule has been prepared on the same basis of accounting as the financial statements.
- (2) This schedule reflects only the grantors share of expenditures.
- (3) Represents the amounts due from grantors.

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Upper Cumberland Development District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Upper Cumberland Development District, as of and for the year ended June 30, 2011, which collectively comprise Upper Cumberland Development District's basic financial statements and have issued our report thereon dated January 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Upper Cumberland Development District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Upper Cumberland Development District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Upper Cumberland Development District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Upper Cumberland Development District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of Upper Cumberland Development District, in a separate letter dated January 20, 2012.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA, CFP, PFS
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA
TERRY M. WINSTEAD, CPA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Cumberland Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the State of Tennessee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Craine, Thompson & Jones P.C.

Morristown, Tennessee
January 20, 2012

Internal Control Over Compliance

Management of Upper Cumberland Development District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Upper Cumberland Development District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Upper Cumberland Development District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, City Council, the Board of Directors others within the entity, the State of Tennessee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Craine, Thompson & Jones P.C.

Morristown, Tennessee
January 20, 2012

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Upper Cumberland Development District

Compliance

We have audited Upper Cumberland Development District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Upper Cumberland Development District's major federal programs for the year ended June 30, 2011. Upper Cumberland Development District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Upper Cumberland Development District's management. Our responsibility is to express an opinion on Upper Cumberland Development District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Upper Cumberland Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Upper Cumberland Development District's compliance with those requirements.

In our opinion, Upper Cumberland Development District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA, CFP, PFS
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA

Upper Cumberland Development District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	No
Material weaknesses identified?	
Reportable conditions identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	No
Material weaknesses identified?	
Reportable conditions identified not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a):	No
Identification of major programs:	

CFDA Numbers

Name of Federal Program or Cluster

10.424	Intermediary Relending Program
11.307	Economic Adjustment Assistance
93.044	Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging - Title III, Part C

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as law-risk auditee	No

Section II – Financial Statement Findings:

No matters were reported

Section III – Federal Award Findings and Questioned Costs:

No matters were reported